



City of Detroit

OFFICE OF THE AUDITOR GENERAL

**Audit of
Chene Park
Detroit Recreation Department**

January 2004

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Detroit Recreation Department
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MEMORANDUM

DATE: February 2, 2004
TO: Honorable City Council
FROM: Joseph L. Harris
Auditor General
RE: Audit of Chene Park

Attached for your review is our report on the audit of the Detroit Recreation Department's (DRD) Chene Park and our review of allegations concerning the management, promotion of events, and internal controls.

This report contains an executive summary; our audit purpose, scope, objectives, and methodology; background; and our findings and recommendations.

We appreciate the cooperation that the employees and management of the DRD, Chene Park contractors, and others extended to us during this audit.

EXECUTIVE SUMMARY

The Office of the Auditor General (OAG) conducted an audit of Chene Park after allegations were raised concerning management, promotion of events and internal controls. A summary of our audit findings and recommendations follows:

1. Use Competitive Bidding Process to Select Vendors and Consultants

The Detroit Recreation Department (DRD) management circumvented the City's purchasing policy, by not seeking proposals or competitive bids, to select Nojo Entertainment, Inc. and Earl Ciccel to provide consulting, project management, and General Manager services at Chene Park. Because a competitive bidding process was not used, there is no assurance that the City received the best services available at the best price.

We recommend that the DRD procure services in accordance with the City's purchasing ordinance and procedures.

2. Improve Controls Over Cash

We noted numerous weaknesses in Chene Park's controls over cash. We could not account for \$155,641 in cash received. Additional weaknesses noted were that cash payments were not accounted for in the ledger; cash receipts were not acknowledged with a receipt; cash was not deposited within 48 hours of receipt; bank reconciliations were not completed; supporting documentation was missing; and there was a co-mingling of funds between Chene Park and Hart Plaza. Poor controls over cash create opportunities for misappropriation.

We recommend that the DRD institute policies to strengthen internal controls over cash. Further, an investigation of the cause and disposition of the missing \$155,641 cash should be conducted, as well as a financial audit of Hart Plaza operations, including the Detroit Electronic Music Festival.

3. Prohibit Chene Park Management Conflicts of Interest and Monitor Compliance

Instances of conflicts of interest were noted with Clarence Rome, the former DRD Entertainment Coordinator, even though the City has a conflict of interest clause in its personal services contract. Another instance was noted with the former Interim Deputy Director. When a conflict of interest exists, there is a lack of assurance that the individual is acting in the best interest of the City.

We recommend that DRD management and contractors attest that they do not have conflicts of interest, and that the DRD monitor compliance with these statements.

4. Strengthen Controls Over Cash Disbursements Process

Chene Park made duplicate payments and overpayments. Several checks were issued based on quotations, not invoices. Blank checks were issued to the box office to cover event expenses. Supporting documentation did not equal the amount of the check requests. Invoices were paid early. Poor controls over the cash disbursements process can lead to payments for goods or services that have not been received, and provide opportunities for misappropriation of funds.

We recommend that the DRD make efforts to collect the duplicate payments that have been made. Further, DRD should implement process controls to identify duplicate payments and overpayments before they are made.

5. Obtain Contract Approval Before Allowing Services to be Performed

The DRD selected Earl Ciccel to be the General Manager of Chene Park for the period January through October 2003. The DRD allowed Mr. Ciccel to perform General Manager duties between January and May, before his contract was approved by City Council. Mr. Ciccel's contract was not approved.

We recommend that the DRD implement procedures to prevent contractors from starting work prior to the formal approval of personal services contracts by City Council.

6. Put Equipment Use Agreement Terms in Writing

Chene Park paid excessive sound system costs to Nojo Entertainment, Inc. after it allowed Nojo to replace the Chene Park sound system with another system. Chene Park contracted for a sound system and labor for 30 shows at a cost of \$70,000 plus \$250 per laborer per show. Nojo was not satisfied with the quality of Chene Park's sound system and replaced the system at its own cost. Nojo subsequently billed Chene Park for equipment rental and labor when other event sponsors used its sound system. These fees totaled \$30,300, \$26,300 more than the labor fees would have been under Chene Park's original contract.

We recommend that Chene Park put the terms for equipment usage in writing. Further, we recommend that Chene Park not pay for services that were not contracted.

7. Follow the City's Procurement Process

The DRD does not follow the City's procurement process for Chene Park operations. Competitive bids are not always obtained. The Law Department does not review all contracts, and City Council does not approve all contracts. In many cases, there were no formal contracts for services. Therefore, there is a lack of assurance that Chene Park's goods and services are obtained in a fair and impartial manner, that the best terms are received, and that the City's interests are protected.

We recommend that the DRD follow the City's procurement policies and procedures.

8. Ensure all Personal Services Contractors Receive IRS Form 1099 as Required

Chene Park pays many of its contractors outside the City's accounts payable system, and is required to submit a list of contractors, who have received payments greater than \$600 during the calendar year, to the Finance Department's Accounts Payable Division, for issuance of an IRS Form 1099 to the contractor. We found that eight contractors that received payments greater than \$600 in 2002 had not been included on the list to receive a 1099. Failure to comply with IRS requirements may subject the City to fines and penalties.

We recommend that the DRD adopt procedures to ensure that the list of contractors, who received over \$600 during the calendar year, that is submitted to the Finance Department's Accounts Payable Division is complete.

9. Monitor Adherence to the Terms of the Chene Park Development Agreement

The DRD entered into a Development Agreement with the National Park Service, through the Michigan Department of Natural Resources (DNR), that requires Chene Park to provide events to the general public whereby complimentary tickets are issued to economically disadvantaged persons, and 50% of the concerts are free. It appears that Chene Park did not meet the terms of the agreement in the 2003 season.

We recommend that the DRD clarify its contractual obligations with the DNR, incorporate its ongoing contractual obligations in its policies and procedures, and monitor its continued compliance with the contract terms.

10. Limit Availability of Complimentary Tickets

In 2003, an average of 657 complimentary tickets was issued for each concert. In 2002, an average of 329 complimentary tickets was issued. The Chene Park license agreement between the DRD and the promoter establishes the number of complimentary tickets that will be made available to the City and to the promoter. In past years, the number of tickets made available to the promoter was limited to 5% of the seating of the house. Under the terms of its 2003 license agreement, however, there was no established limit placed on the number of complimentary tickets that Nojo Entertainment, Inc. could issue. The higher number of complimentary tickets issued in 2003 meant that fewer tickets were available for sale to the public.

We recommend that the DRD determine a reasonable number of complimentary tickets that may be issued for each event, and include that amount in the terms of the license agreement.

11. Contract with Concessionaires to Increase Revenues

The DRD did not sign formal contract agreements with the concessionaires for the 2003 season. Internal control procedures, previously incorporated into concessionaire agreements, to verify the amount of revenues collected were not followed. Concession revenues, per patron, were lower than similar venues.

We recommend that the DRD ensure that formal arrangements are made for concessions for the 2004 season, and that revenue documentation requirements are incorporated into the concessionaire contracts.

12. Obtain Sponsors and Ensure that Sponsor Agreement Terms are Met

Chene Park did not collect any sponsor revenues even though two sponsors' signs were displayed at the park throughout the 2003 season. A representative from Coca-Cola Bottling Company indicated that it would not pay its fee because Chene Park had breached its contract.

We recommend that DRD negotiate a settlement for the 2003 season with the sponsors whose signs were displayed. We further recommend that the DRD establish controls to ensure that sponsorship obligations are met.

13. Charge Promoters Full Cost of Chene Park Usage

The Recreation Department passes along the costs of operating Chene Park to those promoting concerts through fees that are assessed based on a standard rate schedule. These fees are negotiated for each event. Nojo Entertainment, Inc.'s license agreement

included lower fees for building rental and the box office, and excluded \$1,700 of the standard fees. If the excluded fees had been assessed, Chene Park could have earned an additional \$22,100 on the 13 concerts that were promoted by Nojo in 2003.

We recommend that Chene Park review its standard fee structure and make efforts to ensure that Chene Park's operating costs are passed on to promoters through its fee structure.

14. Ensure All Concert Tickets are Made Available to the General Public

Nojo Entertainment, Inc. ordered that inexpensive tickets be held back from sale for several "Jazz Series" concerts. Nojo's order breached the terms of its license agreement that stipulates that Chene Park has the sole control of the box office, ticket personnel and ticket sales.

We recommend that DRD ensure that the spirit of the Chene Park Development Agreement is met by making sure that all tickets are available for sale, and that Chene Park maintain control of the tickets offered for sale.

AUDIT PURPOSE, SCOPE, OBJECTIVES AND METHODOLOGY

Audit Purpose

The City Council requested that the Office of the Auditor General (OAG) perform an audit of Chene Park after allegations were raised concerning its management, promotion of events, and internal controls. The purpose of the audit was to:

- Determine the validity of allegations made of improprieties in the management and promotion of events at Chene Park (Recreation Department); and
- Determine whether internal accounting controls, financial transactions, and administrative processes for the Chene Park Recreation Activity Fund are in accordance with City Charter mandates, City finance directives and procedures, good accounting practices, and other requirements.

Audit Scope

The OAG conducted an audit of the Detroit Recreation Department's (DRD) Chene Park operations to determine compliance with: City ordinances; purchasing policies and procedures; finance directives and procedures; DRD standard operating procedures; and promoter, concessionaire, parking, merchandise, beverage, and sponsor contracts. In addition, the OAG examined the validity of allegations made of improprieties in managing and promoting events at Chene Park.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the OAG within the last three years.

Audit Objective

Our objective was to determine whether the Recreation Department and contractors are meeting the requirements of City ordinances, procurement procedures, finance directives and procedures, good business practices and contract terms for events held at Chene Park.

Specific objectives included:

- Become familiar with the Recreation Department's Chene Park Operations, standard operating procedures, City ordinances, contracts, and event processes.
- Determine whether the Recreation Department followed City procurement policies and procedures for services provided by Nojo Entertainment, Inc. and Earl Ciccel for Chene Park.
- Determine whether internal accounting controls specified by the City Charter and City of Detroit ordinances and policies for procurements and disbursements are in place and functioning satisfactorily. Specifically, determine whether City procurement and finance directives and procedures are being followed.
- Determine whether internal controls over cash and other receipts for Chene Park are satisfactory.
- Ascertain the policies, procedures, practices, and general controls relative to event tickets, including complimentary tickets.

- Determine the amount of rental, concession, beverage, merchandise, parking, and sponsorship revenue received for Chene Park events in 2002 and 2003.
- Compare Chene Park operations for 2002 and 2003.
- Benchmark Chene Park financial and concert operations with similar entertainment venues in the Detroit area.

Audit Methodology

To accomplish our objectives, our audit included:

- Interviews of Recreation Department management, staff, and others;
- Review of Recreation Department operating procedures for Chene Park;
- Review of relevant City purchasing ordinances;
- Review of promoter, concession, and sponsor contracts;
- Review of the Michigan State Department of Natural Resources (DNR) contract with the City for Chene Park;
- Review of past audits of Chene Park;
- Review of artists' contracts;
- Review of internal controls over cash receipts;
- Review of promoter, concession, and sponsor operations;
- Review of internal controls over event tickets, including complimentary tickets;
- Review of other documents relevant to Chene Park; and
- Other procedures, as we considered necessary, to satisfy our objectives.

Issues Needing Further Study

Funds were transferred from the Chene Park Recreation Activity Fund to support Hart Plaza events such as the Detroit Electronic Music Festival (DEMF) in 2002. Our review of some of the transactions has caused us to conclude that an extensive review of Hart Plaza and the DEMF should be performed.

BACKGROUND

Chene Park is an outdoor amphitheatre, located on the Detroit riverfront, which seats approximately 6,030 people. The National Park Service (Department of Interior), under the Land and Water Conservation Fund Act of 1965, through the State of Michigan, Department of Natural Resources, assisted the City of Detroit in the late 1970s and 1980s in acquiring and developing Chene Park. It is a primary entertainment facility of the City of Detroit's Recreation Department, hosting graduation ceremonies for local high schools, "Jazz Series" concerts, major concerts, Concert of Colors, Soul Circus and other events such as the "School Day Prayer."

Chene Park opened to the public in 1982 with an uncovered cement stage and a grassy hill. From 1982 to 1990, Chene Park went through a series of construction phases: adding a cover for the stage, seats, permanent concession areas, and a tensile cover for the stage and seating area.

The City of Detroit, through the Recreation Department, entered into the Chene Park Development Agreement with the State of Michigan, Department of Natural Resources on August 25, 1989. The objectives of the agreement are:

- "To insure that Chene Park provides outdoor recreation opportunities to the general public; and
- To modify and improve the services and facilities for the general public while visiting Chene Park; and
- To insure that the improvements made by the City of Detroit are permitted under the Program Guidelines of the Land and Water Conservation Act ..."

Included in the list of mutually agreed undertakings and benefits to accrue to the parties and to the public are that:

- "1. The City of Detroit will limit Chene Park's amphitheatre event scheduling to not more than fifty (50) event days between Memorial Day and Labor Day of each year hereafter.
2. The City of Detroit will insure fifty (50%) percent of all events offered at Chene Park's amphitheatre are available to the public at no charge.
3. The City of Detroit will continue its existing policy whereby a reasonable number of economically disadvantaged persons are allowed complimentary admission to those events for which an admission or entrance fee is charged."

A regional representative from the State of Michigan, Department of Natural Resources (DNR) recently stated that the Development Agreement and the requirement for free concerts was made because the National Park Service was concerned that Chene Park was moving towards becoming a professional entertainment facility. The purpose of the funding provided by the National Park Service was for Chene Park to be an outdoor recreation facility. The representative indicated that the intent of the agreement is that the facility be open to the public and that entertainment promoters not exclusively profit from it.

The Nederlander organization operated the facility from 1982 to 1995. In 1996 the Recreation Department took over the operation of the facility.

Chene Park is considered an open house, which allows any creditable promoter to rent the facility. The Recreation Department rents Chene Park to entertainment promoters, community organizations, and others, and provides ushers, security, maintenance, cleaning, medical, stage handlers, lighting, sound system and other services for the renters. The renter reimburses these costs. The Recreation Department also provides parking, food, beverage, and merchandise concessions for Chene Park events.

Promoted events are assessed fees according to a license agreement for the use of the park, and a standard rate sheet, which covers actual costs to stage the event, a building use fee, and a restoration fee. Actual costs include printing tickets, stagehands, utilities, and catering. The building use fee is sometimes lowered to entice a major show to the facility that would be beneficial to the community. The restoration fee covers those expenses at the facility that are not covered directly by the events such as overnight security, weekday security, box office operations, weekly trash removal, etc.

To meet the requirements of the Development Agreement, the Recreation Department offers community based events. Community based events are defined as events that are free to the general public and are produced or promoted by non-profit or community based organizations.

The Recreation Department accounts for Chene Park through its Chene Park Recreation Activity Fund. The Chene Park operations, other than ground maintenance, utilities, and administrative personnel, are not included in the Recreation Department's or City's annual budget. The Chene Park Recreation Activity Fund is not audited and is not reported in the City's Comprehensive Annual Financial Report (CAFR). Ticket, concession, parking, sponsorship, and rental revenues are collected and deposited in the Chene Park Recreation Activity Fund bank account.

The Recreation Department's Special Activities Unit manages Chene Park. There were three independent contractors assigned to Chene Park, an Entertainment Coordinator, an Operations Coordinator, and a Community Concerts and Administration Coordinator. The Entertainment Coordinator acted as the General Manager for the Recreation Department's Riverside Parks, including Chene Park.

The DRD has undergone major changes in management since the spring of 2002, including four different Directors. In early 2003, there was turnover in the DRD Director and Deputy Director positions and the Special Activities Coordinator was on a leave of absence. As a result, management control over Chene Park was affected. Many tasks were not accomplished, and the 2003 season suffered.

During 2002, Earl Ciccel presented several plans to DRD for managing Chene Park. In late 2002, after approximately five months of negotiations, the DRD selected Earl Ciccel, President of Nojo Entertainment, Inc., to be the General Manager of Chene Park for the period of January 1, 2003 through October 15, 2003. A draft of the scope of services which was to be included in the contract specified that Mr. Ciccel would provide facility management, which included, but was not limited to:

- Oversight of facility operations;
- Supervision and monitoring of concession, parking, merchandise, and marketing operations;

- Solicitation of sponsorships as approved by DRD;
- Supervision of production, maintenance, security and event staff;
- Maintenance of appropriate records and providing reports that are required;
- Provision of entertainment consultation as needed; and
- Provision of booking supervision and scheduling of all events and maintenance of the schedule as approved by the DRD.

The City Council ultimately rejected the General Manager contract on April 30, 2003. A City Council hearing was held on July 11, 2003 to discuss the status of Chene Park. During the hearing, allegations were raised that Earl Ciccel acted as the General Manager of Chene Park without a City Council approved contract, and exclusively promoted concerts at Chene Park for the 2003 season. In addition, it was alleged that internal controls over Chene Park financial operations were poor.

In 2003, the Chene Park Recreation Activity Fund lost \$77,465. The table below documents the decline in major revenues for Chene Park.

Revenues	2002	2003	Difference
Ticket Revenue	\$1,142,422	\$ 872,785	\$ (269,637)
Concession Revenue	69,501	34,091	(35,410)
Merchandise Revenue	10,088	5,431	(4,657)
Sponsor Revenue	41,750	0	(41,750)
Parking Revenue	91,874	75,572	(16,302)
Graduation Revenue	90,530	41,755	(48,775)

Ticket revenues declined because fewer shows were held in 2003 causing paid attendance to be 40% lower than in 2002. Concession revenues declined because overall attendance was 33% lower than in 2002, the concessionaire was acquired late, and preparations and controls over concessions were poor. Sponsor revenues were not received in 2003 because the only sponsor claimed Chene Park breached the contract by not honoring its sponsor obligations, such as properly promoting the sponsor's product. In addition, other sponsorships were not acquired because of the lack of management involvement in 2003. Graduation revenues were down in 2003 because fewer graduation ceremonies were held at Chene Park.

Detailed on the following page are the financial results for Chene Park for the 2003 season (January 1, 2003 to October 31, 2003) compared to the 2002 season (January 1, 2002 to December 31, 2002). Since very little activity occurs at Chene Park after September, the results are fairly comparable for the two years.

The table compares the net losses for Chene Park for 2002 and 2003. The table also compares the changes in the Chene Park Recreation Activity Fund balance for 2002 and 2003. City appropriations and City funded amounts are not included in revenues or expenses.

	2002	2003	Difference
Total Revenues	\$ 2,548,525	\$ 1,415,996	\$ (1,132,529)
Total Expenses	2,427,016	1,492,699	(934,317)
Operating Income/(Loss)	\$ 121,509	\$ (76,703)	\$ (198,212)
Unaccounted Revenues	(154,099)	(1,542)	152,557
Reimbursement from Cash	0	(1,200)	(1,200)
Deposit Adjustments	278	1,980	1,702
Net Operating Income/(Loss)	\$ (32,312)	\$ (77,465)	\$ (45,153)
Fund Balance at Beginning of Year	\$ 322,023	\$ 289,711	\$ (32,312)
Fund Balance at End of Year	\$ 289,711	\$ 212,246	\$ (77,465)

Operating Income declined by \$198,212 from 2002 to 2003. This was due to fewer paid ticket sales; fewer graduation ceremonies; lower concession and sponsor revenues in 2003; and Nojo Entertainment, Inc. receiving the profits from the "Jazz Series" concerts. Overall revenues and expenses were lower in 2003. Over one-half of the difference in revenues is attributable to the lesser amount of Detroit Electronic Music Festival and Hart Plaza monies that were deposited into the Chene Park Recreation Activity Fund in 2003. In 2002, \$887,291 was deposited, while in 2003, \$265,570 was deposited.

The Chene Park Recreation Activity Fund balance declined by \$32,312 in 2002 and by \$77,465 in 2003. All of the operating income for 2002 was erased by the missing revenues of \$154,099.

FINDINGS AND RECOMMENDATIONS

1. Use Competitive Bidding Process to Select Vendors and Consultants

The DRD management circumvented the City's purchasing policy, by not formally seeking proposals or competitive bids to select Nojo Entertainment, Inc. (Nojo) and Earl Ciccel, for consulting and project management services for Chene Park in 2002 and 2003.

Specifically, the DRD selected Nojo Entertainment, Inc. and Mr. Ciccel to:

- Consult on and manage the roof repairs and renovation at Chene Park without obtaining other proposals.
- Consult on acoustical renovations in conjunction with the roof repairs without obtaining other proposals.
- Operate as the General Manager of Chene Park for the period January through October 2003 without obtaining other bids or proposals.
- Exclusively promote concerts in 2003, including the Wednesday Night "Jazz Series."

Roof Repairs and Renovation

The DRD used the Detroit Building Authority (DBA) to contract and monitor the roof repairs and renovations for Chene Park. The DRD selected Nojo Entertainment, Inc. to be the consultant and project manager for two Chene Park roof repair and renovation contracts. The DBA Board of Commissioners approved its selection.

The Chene Park roof was completed in July 1990 and, according to a DRD representative, cost approximately \$2 million. The roof had its first major tear in January 1999; a second major tear occurred in December 2000; and a third major tear occurred in February 2001. The cost to repair the first two major roof tears was over \$1.3 million. The DRD initially contracted with the same construction company that made the first two repairs to fix the third tear at a cost of \$831,000. DRD made a down payment of \$249,300 on March 8, 2002.

The former DRD Director was reportedly frustrated by the frequency of the tears in the Chene Park roof and the high cost to repair them. On March 18, 2002, he asked Nojo Entertainment, Inc. to provide an estimate to repair the Chene Park roof. Nojo provided an estimate, to install a temporary roof panel, which was substantially lower than the purchase order that had been issued. On March 28, 2002 DRD issued a stop work order and forfeited the \$249,300 down payment that had been made.

On April 18, 2002, acting on DRD's recommendation, the DBA awarded Nojo a personal services contract of \$30,000 to consult on the roof repair project. On May 24, 2002, the contract was amended to add \$105,000, and later to add \$3,563, for a total of \$138,563. Payments to the company making the repairs totaled \$182,000. The roof repairs were completed by May 24, 2002 as required, at a cost of \$320,563. Project management services were 43% of the roof repair costs.

In October 2002, the DBA Board of Commissioners approved \$1,880,000 to renovate the Chene Park roof and to make sound quality improvements. In November 2002, Nojo Entertainment, Inc. was awarded a \$217,860 contract to manage the roof repair and

structural renovations work. On April 17, 2003, the DBA amended the contract with Nojo to add \$160,000 for acoustical consulting.

A DRD representative reported that even with the repairs and improvements, the cause of the roof tears has not been fully eliminated. The roof has design flaws and is incapable of handling the harsh winters in Detroit. The roof does not have enough slope for drainage, causing water to pond on it and freeze, which will eventually wear through the canvas. Nojo Entertainment, Inc. established a routine maintenance procedure to remove the snow from the roof. A firm has been contracted to make a determination when the snow needs to be removed. Another firm has been contracted to remove the snow.

Without a request for proposal and standard specifications, it is difficult to compare the estimates to repair and improve the Chene Park roof that were received from the original construction company and from Nojo. However, proposals prepared by the original construction company indicate its price to repair the third tear and make structural improvements would have been \$1,325,000 (\$831,000 for the replacement panel plus \$494,000 for structural improvements). The DRD, through the DBA, paid \$1,989,214 (\$320,563 for the temporary repair plus 1,668,651 to design, re-engineer, and improve the roof plus make acoustical improvements) for similar work managed by Nojo.

General Manager

DRD did not put out a request for proposal (RFP) for the General Manager position at Chene Park. After several months of negotiation, Earl Ciccel was selected by the DRD to be Chene Park's General Manager for the 2003 season. It appears as though Mr. Ciccel performed General Manager duties for Chene Park between January and early June 2003. Mr. Ciccel's General Manager contract was rejected by City Council on April 30, 2003, although DRD anticipated that Council would approve the contract at least until May 28, 2003.

Clarence Rome had a personal services contract with DRD in effect from July 1, 2002 through June 30, 2003 as Entertainment Coordinator at Riverfront Parks, which includes Chene Park, while Mr. Ciccel performed General Manager duties. Mr. Rome's contracted services overlap those that were to be provided by Mr. Ciccel. The Chene Park Operations Manager told us that the DRD Special Activities Coordinator ordered both him and Mr. Rome to Hart Plaza in February 2003. They did not return to Chene Park to resume the management of that venue until the end of May 2003.

During 2003, there was turnover in the Director and Deputy Director positions, and the Special Activities Coordinator was out on a leave of absence. Due to these circumstances, combined with the absence of a General Manager, there was a lack of management control and planning at Chene Park for the 2003 season. As a result,

- The concessionaires were not selected fairly and in a timely manner, and there were no contracts;
- Vendors providing services were not fairly selected, and there were no formal contracts for some of them (i.e. lighting, security);
- New sponsors were not acquired for the 2003 season;
- Ticket, concession, and merchandise revenues were down in 2003, and there were fewer concerts and attendees; and

- Events were cancelled.

Summary

As a result of their being awarded or selected for project management and General Manager contracts, Nojo Entertainment, Inc. and Earl Ciccel received payments from the City of Detroit totaling \$997,662 (\$516,423 for project management services and \$481,239 for promoter payments).

A competitive bidding process provides assurance that the lowest price is paid for goods and services, and that a qualified vendor is selected. Because a competitive bidding process was not utilized on the roof repair and renovation contracts, the City identified a single vendor, and may have paid a higher price than necessary for roof repairs and renovations.

Because Nojo Entertainment, Inc. and Earl Ciccel were not fairly selected, there was no assurance that Chene Park received the best construction management, General Manager, and promoter services at a fair and reasonable price.

The Detroit City Code, Chapter 18, Article 5, established the City's purchasing requirements for professional services such as construction management and General Manager services.

- Generally, the City requires proposals or quotations from its list of professional service providers or other competent providers of such services. Also, the City requires an evaluation of a firm's qualifications to perform the services.
- Members of the professional selection committee convene and rank or score the responses to a request for proposal, qualifications, information, or quotations according to the evaluation criteria stated in the request. The subject contract is offered to the highest ranked or scored respondent.
- Exceptions to these requirements are allowed for purchasing emergencies.

A competitive bidding process should be employed whenever possible to ensure a level playing field and the appearance of propriety.

The City's Finance Directive 104 (C) requires City Council approval for "all personal/professional contracts and associated amendments regardless of dollar value," prior to contract execution.

Recommendation:

We recommend that the DRD procure services such as construction manager, Chene Park General Manager, and personal services contractors in accordance with City purchasing ordinances and procedures, which require a fair and competitive process. The DRD should not allow contractors to perform services without first obtaining formal approval of the contract from City Council.

2. Improve Controls Over Cash

Documented cash receipts for the period January 1, 2002 to October 31, 2003 exceed the bank deposits to the Chene Park Recreation Activity Fund and cash payments by \$155,641. As detailed in the table below, we found that the \$155,641 in unaccounted for cash stems from cash transactions for ticket, concession and merchandise sales.

In 2002 and 2003, Chene Park collected \$1,278,730 in cash and checks from ticket sales, concession revenues, and merchandise revenues. Chene Park made cash payments of \$584,110 directly from the box office for artists, promoters, staff, runner, and vendor expenses and settlements, including the \$1,200 cash payment made to the former interim Deputy Director; and deposited \$538,979 of cash and checks into the bank. Cash totaling \$155,641 has not been accounted for.

	2002	2003	Combined
Total Cash Collected at Chene Park	\$ 839,892	\$ 438,838	\$ 1,278,730
Cash & Checks Deposited in Bank	\$ 386,533	\$ 152,446	\$ 538,979
Cash Paid from Box Office	<u>299,260</u>	<u>284,850</u>	<u>584,110</u>
Cash Accounted For	\$ 685,793	\$ 437,296	\$ 1,123,089
Cash Unaccounted For	\$154,099	\$1,542	\$155,641

In addition, we noted that:

- Receipt forms were not used to document the amount of cash that was collected from concessionaires and merchandise vendors in 2002.
- Cash was not picked up by an armored car or immediately deposited into the bank.
- We counted \$69,973 in the Chene Park safe on October 30, 2003. The last concert of the season was held on September 9, 2003. The Chene Park staff person responsible for deposits was unaware of the total amount in the safe.
- Bank reconciliations were not completed until late in the 2003 season by the DRD accounting staff.
- The DRD general ledger did not account for the \$584,110 in cash payment made from the box office to artists, runners (persons that do errands at concerts and other events), promoters, and others.
- Several of the 2002 daily Ticketmaster cash records, indicating that \$142,516 of ticket revenues was collected by the box office cashiers, were missing. The cashier's Daily Cash Reports for the same period indicated that \$135,454 of cash was actually collected at the box office.
- Cash received was not reconciled to supporting documentation to ensure that all funds were accounted for.

Chene Park's poor controls over cash receipts and payments created opportunities for cash misappropriation; we identified \$155,641 that was unaccounted for. Collecting cash without receipt forms provides additional opportunities for the cash collected to be misappropriated.

Good cash handling practices include internal controls to safeguard cash and detect any mishandling or theft of funds. This includes timely deposits, a periodic reconciling of cash

and other revenues received to deposits and bank statements, and accounting for all revenue and expenditure transactions.

Chene Park's box office guidelines require that each ticket seller balance daily cash collections with the Ticketmaster computer cash card. The Entertainment Coordinator and Operations Manager are responsible for ensuring that the cash received from the box office balances to the Ticketmaster computer cash cards.

DRD staff provided us with documentation that indicated that \$51,194 of the revenues that could not be accounted for might be funds advanced from the Chene Park box office in May 2002 for the Detroit Electronic Music Festival (DEMF). An audit of the 2002 DEMF revenues and expenditures would be needed to verify that the \$51,194 cash payments were, in fact, made from cash collected for Chene Park ticket sales.

Recommendation

We recommend that the DRD strengthen the internal controls for cash to include the following:

- Timely deposits of cash within 48 hours as required by Finance Directive 20;
- Reconciliation of bank deposits with supporting revenue collection documentation by DRD accounting staff;
- Use of an armored car service to pick up and deposit cash receipts;
- Accounting for all Ticketmaster computer cash cards;
- Timely reconciliation of bank statements in accordance with City Policy;
- Use of receipt forms for all cash transactions;
- Recording of cash transactions from the box office on Chene Park's General Ledger;
- Creation of an imprest cash fund to control disbursements and to pay artists.

Also, we recommend an investigation of the cause and disposition of the missing \$155,641; and that an audit of the DRD's Hart Plaza operations be performed.

3. Prohibit Chene Park Management Conflicts of Interest and Monitor Compliance

We observed numerous instances of conflicts of interest by Chene Park contractors and DRD management.

Entertainment Coordinator

Clarence Rome, the former DRD Entertainment Coordinator, who essentially acted as the General Manager of Chene Park, had numerous instances of conflicts of interest while performing his duties prior to the 2003 season. Mr. Rome's duties at Chene Park included: scheduling events, contracting for services such as stagehands, selecting promoters, processing payments, and overseeing operations.

- It appears as though Mr. Rome owned the company that processed the stagehand's payroll in 2001 and prior years, as his address is the same as the address of the company. The payroll processing company charged a 31% fee that covered payroll taxes and its profit.
- It appears that Mr. Rome promoted a show at Chene Park in 1996, as Mr. Rome's address is the same as the address of the promotion company.
- Mr. Rome worked as a disc jockey for a radio station owned by a company that promoted two of the six major concerts at Chene Park in 2002.
- Mr. Rome signed artists' contracts in 2002, for another promoter. The promoter promoted three of the six major concerts in 2002, and received \$224,806 in settlement fees for the three concerts. This promoter was overpaid \$3,500 for one of the shows.
- Mr. Rome was reimbursed in 2001 and 2003 for expenses paid by a promotion company and the company that processed Chene Park's stagehand payroll.
- The sponsorship contract for Chene Park required the sponsor to provide media support through the radio station that Mr. Rome worked for.

Due to these conflicts, there is a lack of assurance that Mr. Rome was acting in the best interests of the City. The fairness of the selection of promoters for Chene Park concerts in 2002 and prior years is questionable. There is a lack of assurance that the stagehand expenses were reasonable. Mr. Rome is no longer under contract with DRD.

Interim Deputy Director

The DRD Interim Deputy Director had a conflict of interest with the non-profit organization that provided the liquor license for Chene Park for the beginning of the 2003 season. She acknowledged the conflict of interest and arranged for another non-profit organization to obtain the liquor license for subsequent events.

Summary

Good internal controls and ethics require that managers not have an interest in a company that provides goods and/or services to the entities they manage. When a manager has such a conflict of interest, there is no assurance that the manager is acting in the best interest of the City, and it gives an appearance of impropriety.

Mr. Rome's personal services contract did contain a Conflict of Interest clause. The clause states that "The Contractor covenants that he (she) presently has no personal or financial interest, and shall not acquire any such interest, direct or indirect, which would conflict in any manner or degree with the performance of the services under this Contract."

Recommendation

We recommend that the DRD ensure that management and contractors be required to attest that they do not have any conflicts of interest with promotion companies and other vendors that provide goods and services to Chene Park; and that DRD monitor compliance with this clause.

4. Strengthen Controls Over Cash Disbursement Process

We observed that invoices were not always obtained, and that the DRD paid some expenses based on proposals and quotes submitted by the vendor. Check requests did not always have original invoices attached. On at least two occasions, documentation supporting the payments were price quotes. Most invoices were signed indicating receipt of the goods or services.

It is Chene Park's practice to release blank checks to the box office to settle event expenses the night of the show.

In 2001, a check request was submitted for \$74,213 to cover stagehand payroll, while supporting documentation indicates that the payroll for the period totaled \$83,982. It was unclear whether the supporting documentation was incorrect or whether the check request was prepared in error.

The second installment payment, totaling \$36,050, on the sound system DRD ordered for the 2003 season, was paid on May 27, 2003. Terms of the contract called for the payment to be made on July 15, 2003. The check request indicated that the check was a "Rush." The sound system was installed, and then was removed on June 8, 2003.

In addition, the DRD made duplicate payments and overpayments to vendors, promoters, Clarence Rome, and Nojo Entertainment, Inc. totaling \$63,112; \$45,524 of those duplicate and overpayments is still outstanding. Overpayments and duplicate payments are detailed below:

- Nojo Entertainment, Inc. was paid \$17,588 twice for the settlement of the July 2, 2003 concert. This overpayment was deducted from a subsequent invoice and is no longer outstanding.
- The stagehand payroll processing company was paid \$7,275 twice for the August 3, 2003 weekly stagehand payroll.
- The promotion company for which Mr. Rome signed the artists' contracts was overpaid \$3,500 for the August 3, 2002 concert. The settlement for the concert did not include a deduction for a payment that had been previously made by Chene Park of \$3,500 to an artist who performed at the concert.
- Mr. Rome was overpaid \$3,249 for 1996 expenses reimbursed in 2001 and 2003. He received a total of \$39,938 (\$20,000 on December 20, 2001 and \$19,938 on May 22, 2003) for documented expenses totaling \$36,689. These 1996 expenses were for sound equipment, advertising, cell phone usage, phone bills, catering and other expenses paid by him and companies apparently owned by him. Some of the expenses for phone usage were supported by phone company statements and lacked detail of the phone calls made.
- A former DRD Interim Deputy Director was reimbursed \$1,200 for liquor license expenses. The non-profit entity acquiring the liquor license should have paid for these expenses.
- Mr. Ciccel rented another sound system and improperly billed the City \$30,300 for use of this system for graduations and the Concert of Colors. The invoice was approved and paid.

Poor controls over blank checks could lead to a major misappropriation of funds. Payment of check requests without validating the receipt of goods, amount of the check request, the correctness of the supporting documentation to the check request, or documentation to vendor agreements provide opportunities for incorrect payments or payment for goods that have not been received. Overpayments and double payments have contributed to the depletion of the Chene Park Recreation Activity Fund.

An objective of the internal control for the cash disbursement function is that cash is only disbursed for valid business purposes. Management is responsible for implementing procedures that will provide reasonable assurance that this objective is accomplished. Such procedures should include the requirement for adequate documentation in the form of receipts or an invoice, that expenditures are approved in advance by an authorized person, that invoices be marked PAID with the date and amount of the check, that all invoices be checked for mathematical accuracy and reasonableness before approval, that unpaid invoices be maintained in an unpaid invoice file, that the list of unpaid invoices be periodically reviewed, and that the organization keep an accounts payable register to avoid double payment.

The DRD did not follow the City's financial procedures for payments, which incorporates many of the aforementioned controls to prevent or at least reduce the risk of duplicate payments and overpayments. To reduce the risk of duplicate payments and overpayments, City procedures require the matching of purchase orders, receiving reports and invoices before payments are made.

DRD accounting staff does not diligently review check requests to ensure that duplicate payments and overpayments are not made, that invoice documentation supports the check request, and that invoices conform to contractual arrangements. Transactions were not posted promptly, thereby not allowing staff to determine which invoices had already been paid.

Recommendation

We recommend that the DRD make efforts to collect the duplicate payments and overpayments that have been made.

In addition, we recommend that the DRD implement internal controls and follow the City's payment procedure to reduce the likelihood that duplicate payments and overpayments are made in the future. Purchase orders and ledgers should be used so that payments can be recorded timely, and payment requests checked to ensure the invoices are not paid twice or overpaid.

DRD should settle accounts the day after the show whenever possible. Otherwise, indicate the amount and the payee name on the check before the check leaves the DRD accounting office.

5. Obtain Contract Approval Before Allowing Services to be Performed

The DRD selected Earl Ciccel to be the Chene Park General Manager for the 2003 season. Mr. Ciccel performed some of the duties of the General Manager between January and May 2003, in anticipation of contract approval by City Council. On April 30, 2003, the City Council denied approval of his General Manager contract. Internal memos throughout the month of May indicate that the DRD anticipated that Mr. Ciccel's contract would be approved, and that Mr. Ciccel should continue to perform General Manager duties.

Manager duties performed by Mr. Ciccel between January and June 9, 2003 include:

- Scheduled the concerts for 2003 and selected Nojo Entertainment, Inc. as the only promoter.
- Through Nojo Entertainment, Inc., promised a renovated Chene Park with improved acoustics and sound system in letters to prospective performers.
- Worked on acquiring the concessionaires for the 2003 season, but did not finalize the concession arrangements.
- Arranged for complimentary tickets to be exchanged for radio advertisements.
- Replaced the DRD's sound system, rented at a cost of \$72,100 for the 2003 season, with another sound system, recommended under Nojo Entertainment Inc.'s contract to consult on acoustical sound improvements to the Chene Park roof. Nojo Entertainment, Inc. improperly billed the City \$30,300 for the use of this system for graduations and the Concert of Colors.

On July 31, Mr. Ciccel signed a license agreement with Chene Park effective June 9, 2003. In June, Nojo Entertainment, Inc. promoted a concert without a license agreement and ordered that the less expensive seats be held back from sale for several "Jazz Series" concerts.

Section 18-5-5 of the City of Detroit Code requires that all contracts for personal services be approved by City Council in order to be valid. Provision 5.01 of the City's standard Individual Personal Services Contract states: "The contract will be deemed to be awarded only after the formal approval by a resolution of City Council ... and the contractor will have no authority to start work prior to the award of the contract."

DRD and Mr. Ciccel fully expected the personal services contract to be approved by City Council. No contingency plan was made for Chene Park operations in the event the contract was not approved.

Recommendation

We recommend that the DRD implement procedures to prevent contractors from starting work prior to the formal approval of personal services contracts by City Council. Also, controls should be established to ensure that vendors without contractual rights and responsibilities do not interfere with the DRD operations.

6. Put Equipment Use Agreement Terms in Writing

Chene Park incurred additional sound system charges of \$26,300 due to the removal of its contracted sound system and the installation of a sound system by Nojo Entertainment, Inc. The additional charges were for equipment rental (\$25,000) and higher sound technician daily rates (\$1,300) that were billed to Chene Park as sound production expenses provided by Nojo Entertainment, Inc. to concerts that were not promoted by Nojo. We did not see any documentation that indicated that, when the City's leased sound system was removed and Nojo Entertainment, Inc.'s sound system was installed, the City should incur any sound system rental charges or higher labor costs than it had contracted to pay its audio company.

In October 2002, the DBA approved a new contract of lease to provide tensile structure improvements at Chene Park. Acoustical improvements were included in the scope of services. Nojo Entertainment was awarded a contract for \$217,860 to manage the project. In April 2003, Nojo's contract was amended by \$160,000 to consult on research, development and installation of the acoustical treatment to be added to the permanent roof and the development of the acoustical model and sound reinforcement.

Between January and June 2003, while Mr. Ciccel's Chene Park General Manager contract was pending, the following events occurred:

- In February 2003, Nojo Entertainment, Inc. touted a renovated Chene Park and an improved acoustical and sound system in letters to prospective artists.
- In March 2003, Mr. Ciccel negotiated with Chene Park's audio sound company for an improved sound system that would meet the acoustical requirements established under the DBA contract. The system cost \$110,000 plus \$15,000 labor costs over 30 shows for a total cost of \$125,000.
- On May 14, 2003, DRD received a proposal from the audio company for the same system that was installed in 2002, plus upgrades at a cost of \$70,000, plus labor and a storage trailer.
- On May 22, 2003, DRD informed the audio company that they had selected the \$70,000 system.
- On May 23, 2003, DRD signed a contract with the audio company for the \$70,000 system. The payment schedule indicated that $\frac{1}{2}$ would be due upon receipt of the system, and $\frac{1}{2}$ would be due on July 15, 2003. Further, if the system is "changed out," the balance is still due.
- On May 25, 2003, check requests were submitted to DRD for the first and second sound system payments. The checks were issued on May 27, and cleared the bank on June 2, and June 10 respectively.
- May 30, 2003 was the planned sound system load-in date.
- On June 2, 2003, Mr. Ciccel indicated he would pay the additional expense, above \$70,000 for the upgraded system as well as the cost to have the equipment installed.
- The June 8, 2003 stagehand payroll indicates that the DRD's sound system was removed.

On July 7, 2003, DRD received a fax from Nojo Entertainment, Inc. stating that there would be sound charges of \$16,800 (\$15,000 for equipment rental plus \$1,800 for labor charges) associated with the Concert of Colors show. Concert of Colors refused to pay the billing,

stating that the sound charges were not part of their agreement with the City. In September, Chene Park received a billing from Nojo Entertainment, Inc. for \$13,500 (\$10,000 for equipment rental plus \$3,500 for labor charges), for sound equipment rental for ten graduations held in June. Chene Park had contracted for labor at \$250 per day with its audio company. Most of Nojo Entertainment, Inc.'s labor was billed at \$350 per day. Nojo's charges were approved for payment by the DRD Interim Deputy Director in November 2003.

The contract that Chene Park entered with its audio company, to provide the sound system for the period June 1 through August 27, 2003, covered up to 30 concerts. The contract specified that Chene Park would be responsible for paying labor costs of \$250 per laborer per show. Because it had already made the annual lease payment on the sound system, Chene Park would expect to incur a total of \$4,000 in sound system labor costs for the shows that Nojo Entertainment provided sound. Nojo Entertainment billed Chene Park \$30,300.

The terms of all agreements should be in writing, to formalize rights and duties and to avoid confusion as to payment terms and conditions. Payments should not be authorized for services and charges that were not contracted for.

Recommendation

We recommend that the DRD formalize the terms of all agreements in writing. Decisions to replace equipment that has been contracted for should be subjected to a thorough analysis of costs and benefits.

7. Follow the City's Procurement Process

The DRD does not follow the City's procurement process for the Chene Park operations. Competitive bids were not always obtained, the Law Department did not review all contracts, and City Council did not approve contracts and purchase orders. We saw contracts drawn up by the vendors that did not contain standard provisions that the City normally includes.

The DRD did not always obtain proof of workers' compensation and other insurance from vendors providing personal services for the 2003 season. We were provided with a copy of an insurance certificate evidencing workers' compensation coverage for Chene Park security guards. Chene Park staff did not have proof of workers' compensation insurance for stagehands from the stagehand payroll processing company.

We did not see formal contracts for concessions, merchandise, cleaning, catering, medical, security, stagehand payroll processing, equipment, and lighting. We did see proposals for concessions, security and payroll processing services. There were contracts for sound equipment and an agreement with the stagehand union, but these were vendor created contracts, not formal City agreements approved by the City Council.

Services for concessions, merchandise, cleaning, catering, medical, security, promotion, stagehands, equipment, lighting, sound and other services are not always supported by a formal contract. There is a lack of assurance that these services were selected in a fair and competitive manner, thereby ensuring the DRD the best price. Absent formal contracts, there could be a misunderstanding of the goods and services to be provided and the payments to be made. In addition, there was no assurance that vendors maintain proper insurance policies required by City agreements, protecting the DRD and the City from lawsuits.

The Detroit City Code, Chapter 18, Article 5, establishes the City's purchasing requirements, while Finance Directive 104 details the City's purchasing procedures.

- The City's purchasing procedure "requires competitive bidding for all goods and non-professional services, regardless of dollar value. Competition is generally required for personal services in which established businesses are available to compete, such as janitorial services [cleaning], guard [security] services, trucking, etc."
- City Council approval is required, prior to contract execution, for all personal/professional services and all revenue contracts regardless of dollar value, and all contracts for goods and services over \$25,000.
- Once a vendor is selected and approved, a formal contract or purchase order is created, which includes provisions such as vendor insurance requirements and internal controls that protect the City's interests. Provisions requiring vendors to maintain workers' compensation insurance are standard in City service contracts.

Chene Park's agreement with the stagehand union states that "...the Employer [Chene Park] furnish proof that he carries Employer's Liability and Workman's Compensation Insurance."

Representatives of Chene Park told us that they do obtain three quotes for purchases. Although we did see some evidence of this, we did not always see three quotes for the services, especially for the 2003 season.

Recommendation

We recommend that the DRD follow the City's procurement policies and procedures for Chene Park operations. In accordance with the City's purchasing policy, we recommend that the DRD obtain proof of insurance from service vendors, and require the vendors to carry the City as an additional insured on their insurance policies.

8. Ensure all Personal Services Contractors Receive IRS Form 1099 as Required

The DRD did not provide IRS Form 1099-MISC (1099) to all Chene Park ushers and box office workers who earned over \$600 in 2002.

Chene Park's general ledger showed ten personal services contractors (ushers and runner) earning more than \$600 in 2002. Only two of those contractors received a 1099. Because Chene Park's personal services contractors are paid independently of the City's financial system, the DRD is responsible for documenting those contractors receiving more than \$600, and for providing that information to the City Finance Department's Accounts Payable Division, for issuance of 1099s. Eight of the contractors were not on the list that DRD provided to the Accounts Payable Division.

In cases where a worker, who is not considered to be an employee, is paid in excess of \$600 annually, the Internal Revenue Service requires that a Form 1099 be provided to both the worker and the IRS.

Failure to comply with the Internal Revenue Code may subject the City to fines and penalties.

Recommendation

We recommend that the DRD adopt procedures to ensure that all personal services contractors, and others requiring Form 1099-MISC, are included on the list forwarded to the Finance Department Accounts Payable Division.

9. Monitor Adherence to the Terms of the Chene Park Development Agreement

Chene Park concert events and complimentary tickets for the 2003 season may not have met the terms of the Chene Park Development Agreement, that requires that 50% of the events at Chene Park be free to the general public and that a reasonable number of complimentary tickets be issued to economically disadvantaged persons for those events where an admission fee is charged.

Chene Park considers that its "Jazz Series" concerts meet its requirements under the terms of the Development Agreement. In the past, Jazz Concerts were promoted by Clarence Rome, the Entertainment Coordinator, and all profits went into the Chene Park Recreation Activity Fund. In 2003, Chene Park hosted 13 concerts, of which nine were "Jazz Series" concerts. Nojo Entertainment, Inc. promoted the "Jazz Series" concerts, and kept the profits, totaling \$60,742. In addition, the less expensive tickets were withheld from sale on several of the "Jazz Series" concerts.

Number of Concerts	2002	2003	Difference
"Jazz Series" (Free)	11	9	(2)
Major Concerts (Paid)	6	4	(2)
Total Concerts	17	13	(4)

A large number of complimentary tickets were issued in 2002 and 2003. However, we could not determine whether any of those tickets went to economically disadvantaged persons, as Chene Park staff did not document who received the tickets.

Attendance	2002		2003		Difference
Paid	70,422	92%	42,241	82%	(28,181)
Complimentary	6,404	8%	9,312	18%	2,908
Total	76,826		51,553		(25,273)

The Chene Park license agreement, which is signed by the promoter for each event, establishes the number of complimentary tickets that are provided to both the City of Detroit and to the licensee. As shown in the following table, the terms of the 2002 and 2003 license agreements do not specifically set aside any complimentary tickets to be issued to economically disadvantaged patrons, as is required by the Development Agreement.

Complimentary Tickets Per License Agreement	2002	2003 Proposed	2003 Nojo
Reserved to Licensor (DRD), without charge			
Mayors Office	0	12	12
City of Detroit	26	26	26
Recreation Department	26	26	26
Chene Park	20	20	20
Sponsors	0	26	26
Emergency Seats	12	0	0
Total	84	110	110

Among the stipulations of the 1989 Chene Park Development Agreement is that:

- "2. Fifty percent of all events offered at Chene Park's amphitheatre are available to the public at no charge.

3. A reasonable number of economically disadvantaged persons are allowed complimentary admission to those events for which an admission or entrance fee is charged."

A DRD representative indicated that the Development Agreement has been amended so that the "Jazz Series" concerts are considered free, even though the City charges a reduced and affordable fee (\$8 for lawn, \$10 and \$15 for seats) for the tickets to cover concert expenses and Chene Park overhead. We were unable to obtain a copy of this amendment from the DRD, the National Park Service, or the DNR to verify its terms. A regional DNR representative indicated that under the terms of Land and Water Conservation Fund Act funding, Chene Park is allowed to generate income from its free concerts as long as the income is then put back to use in the facility.

Sound management practice states that an entity should meet its contractual obligations. Ongoing contractual obligations should be incorporated into policies and procedures to ensure that they are met and to ensure continuity when there is a change in management. Good record keeping practices require that an organization maintain copies of contracts, especially contracts that have not expired, and maintain a system of monitoring compliance with contract terms. The contracts should be accessible and periodically reviewed to ensure compliance with contract requirements.

A representative of Nojo Entertainment, Inc. told us that he was unaware of the City's Development Agreement with the State of Michigan, Department of Natural Resources for "free" concerts.

Recommendation

We recommend that the DRD obtain copies of all of the State of Michigan DNR agreements, contracts and amendments for Chene Park. The DRD and contractual employees responsible for Chene Park should be provided copies of all contractual agreements and should be required to monitor the agreements to ensure the DRD is in compliance. Procedures should be drafted for the DRD staff responsible for Chene Park to ensure continued compliance.

10. Limit Availability of Complimentary Tickets

During the 2003 season, on average, a far greater number of complimentary tickets were issued for each event than were issued during the 2002 season, although the proposed license agreement made a lower percentage of complimentary tickets available to the licensee (promoter).

The following table shows the number of complimentary tickets held for City (licensor) use and the number made available to the licensee (promoter) per the terms of the Chene Park license agreement. The number of complimentary tickets for City use, and available to the promoter changed between 2002 and 2003, and even vary between the proposed 2003 license agreement and the license agreement entered into with Nojo Entertainment, Inc.

	2002	2003 Proposed	2003 Nojo
License Agreement Limits on Issuance of Complimentary Tickets by the Licensee (Promoter)	Total tickets not to exceed 5% of the seating of the house.	In accordance with good business practice. Not in excess of 2% of available for sale.	In accordance with industry custom and reasonable business practice.
Estimated number of complimentary tickets to be issued to Licensee, based on house seating (6,000 seating – reserved to licensor) and agreement terms.	296	118	Unlimited
Number of Tickets Reserved to Licensor (DRD), Without Charge	84	110	110
Total Complimentary Tickets Available To Licensor and Licensee, Per License Agreement	380	228	Unlimited
Actual Average Number of Complimentary Tickets Issued Per Event	329	657	657
Excess Complimentary Tickets	(51)	429	None

The chart shows that in 2002, although 380 complimentary tickets could be made available for each show, on average 329 tickets were made available. In 2003, under the terms of the proposed license agreement, 228 complimentary tickets could have been made available. The terms of the license agreement with Nojo Entertainment, Inc. set no limit on the number of complimentary tickets that could be issued. As Nojo Entertainment was the sole promoter of events at Chene Park during 2003, the number of complimentary tickets that were issued far exceeded the number that had been issued in 2002, and the number that were intended to be issued in 2003.

The inclusion of “in accordance with industry custom and reasonable business practice” effectively allowed Nojo Entertainment, Inc. the right to issue an unlimited number of complimentary tickets to Chene Park events. The increased number of complimentary

tickets, reduced the number of tickets available for sale, and resulted in decreased ticket revenues.

Good business practice indicates that contractual terms should be specific enough to establish the performance expected under the contract.

A representative of Nojo Entertainment, Inc. said that the complimentary tickets were: (1) given to radio stations in exchange for advertising; and (2) given away to improve attendance.

Recommendation

We recommend that the DRD establish a reasonable number of complimentary tickets that will be issued for each Chene Park event, and update the Chene Park license agreement for the upcoming year to limit the number of complimentary tickets made available to the licensor and the licensee to that number.

11. Contract with Concessionaires to Increase Revenues

The DRD did not renew its concession food and beverage contract with the concessionaire from 2002, and did not properly select or make proper arrangements with a concessionaire for the 2003 season. Although, two concessionaires were found to meet the concession emergency at Chene Park, neither concessionaire had a liquor license.

A formal contract was not signed, and the controls over the two concessionaires selected were weak. In the past, Chene Park relied on the concessionaire to produce cash register tapes to support sales. This was not done in 2003. The concessionaires provided documents of sales; but detailed support, such as cash register tapes, were not required. As a result, there was a lack of assurance that all concession sales were reported to DRD, and that DRD was paid all of the revenues it was due.

Entertainment venues can derive a large amount of revenues from food and beverage concessions to help offset expenses in other areas, such as administrative overhead. A representative of a local entertainment venue, similar in size to Chene Park, told us that they gross \$5 to \$8 per patron in food and beverage concessions. The results of Chene Park's concert food and beverage concession sales are shown below.

	2002	2003
Gross Concert Concession Revenues	\$195,440	\$128,658
Net Concert Concession Revenues	\$58,632	\$30,371
Number of Concert Patrons	76,826	51,553
Gross Concession Revenue Per Patron	\$2.54	\$2.50
Net Concession Revenue Per Patron	\$0.76	\$0.59

Good business practices suggest that a public entertainment venue maximize its revenues in order to offset its costs. All agreements should be incorporated into written contracts so that the terms are known and are enforceable. Adequate controls should be required to ensure that all revenues are reported to the DRD and that the DRD's concession revenues are properly calculated.

Recommendation

We recommend that the DRD ensure arrangements are made for the concessionaire for the 2004 season. This includes selection of the concessionaire in a fair and open manner in accordance with City procurement practices. In addition, the concessionaire should have its own liquor license. Strong internal controls should be in place, including a means to verify concession sales reported by the concessionaire, such as cash register tapes. Further, the DRD should select a concessionaire capable of increasing concession sales.

12. Obtain Sponsors and Ensure that Sponsor Agreement Terms are Met

Although the two sponsors from 2002 had their signs displayed at Chene Park throughout the 2003 season, and despite having a sponsor contract for \$20,000 with Coca-Cola Bottling Company, Chene Park did not collect any sponsor revenue in 2003.

The Coca-Cola Bottling Company sponsorship "contract" that was provided to us by the DRD for 2002 and 2003 appeared to be prepared as a "Power Point" (presentation graphics software) slide show presentation. The proposal included sponsorship terms, which required the sponsor to be the exclusive non-alcoholic beverage supplier for a two-year period at Chene Park. The proposal was signed by the DRD's Special Activities Coordinator and the sponsor's representative.

A representative from Coca-Cola Bottling Company told us that Chene Park breached its contract by not properly promoting the company's product, and they, therefore, would not pay the \$20,000 sponsorship fee. The representative said that his company was not named at concerts as a sponsor, that his company's product was not utilized as agreed, and that other companies' products were sold in violation of the agreement.

Sponsor revenue is a major source of revenue for entertainment venues such as Chene Park. Sponsors are willing to pay a high fee to advertise at such venues. The higher the attendance the more willing companies are to contribute sponsorship fees. Other entertainment venues in the area earn hundreds of thousands of dollars in sponsorship fees.

Recommendation

We recommend that the DRD work with the sponsor to negotiate a settlement for the 2003 season to obtain revenue for displaying the sponsoring company's logo. The DRD needs to institute controls to ensure sponsorship obligations are met. Also, the DRD needs to obtain sponsors for Chene Park for upcoming seasons.

13. Charge Promoters Full Cost of Chene Park Usage

The License Agreement that DRD negotiated with Nojo Entertainment did not include provisions to charge Nojo Entertainment, Inc. for standard fees associated with cash delivery, telephone, utilities, engineering, follow spots or the runner. These standard fees could total as much as \$1,700 per event. In addition, Nojo Entertainment, Inc. negotiated a reduction in the flat fee or a change from a flat fee to an actual charge on the building rental fee, box office fee, ticket set-up fee, maintenance, ASCAP/BMI/SESAC, and first aid.

The DRD did not recoup its operating costs, thus contributing to the depletion of the Chene Park Recreation Activity fund, while the promoter received a higher profit.

The DRD charges fees to promoters to cover its operating costs. Promoters should be responsible for reimbursing the DRD for the use of the facilities for concerts.

The fees for cash delivery charges, telephone, utilities, engineering, follow spots, and the runner had been included in Exhibit A of the Chene Park License Agreement. These costs were omitted from Nojo Entertainment, Inc.'s 2003 License Agreement. Nojo Entertainment, Inc. promoted 13 events in 2003. If these fees had been charged, Chene Park would have collected \$1,700 more per concert, an increase of \$22,100.

Recommendation

We recommend that the DRD review the license agreement and Exhibit A to ensure that all operating costs related to hosting events are included in the contract and that promoters are required to pay expenses related to the events they host.

14. Ensure All Concert Tickets are Made Available to the General Public

Nojo Entertainment Inc. ordered that the inexpensive seats at Chene Park be held back from sale for the June 18, 2003 concert and possibly several other concerts. As a result, patrons were forced to purchase the more expensive seats.

A fax from Nojo Entertainment, Inc. dated June 18, 2003 to the Chene Park staff requested that all of the \$8 and \$10 tickets be placed on hold, leaving only the \$15 tickets available for sale, and asked that the box office not tell buyers that there may be other tickets available for sale for this show later.

A patron sent a letter to Chene Park complaining that when she tried to buy lawn seats for the "Pieces of a Dream" show, she was told, "the only seats that would come up are the \$12.00 tickets. But at show time, people were able to purchase lawn seats. Then today Thurs 6-26-03 I came to purchase tickets for "Kem" told the same thing. Same seating area is available but not the lawn. I was made to purchase a higher price ticket – But at show time, lawn seats were available."

Nojo Entertainment, Inc promoted the "Pieces of a Dream" show and "Kem." Nojo Entertainment, Inc. entered into a license agreement with Chene Park on July 31, 2003, effective June 9, 2003.

Nojo Entertainment, Inc. breached the terms of its 2003 Chene Park license agreement by ordering that tickets be withheld from sale to the public. Holding back inexpensive tickets from sale to the public violated the spirit of the City's development agreement to ensure that Chene Park provides outdoor recreation opportunities to the general public and violated its policy of insuring that all events are available to low and moderate income residents of the City of Detroit.

Clause 15, Ticket and Seating Control, of the 2003 Chene Park Riverside Entertainment Center License Agreement states that "Chene Park or its authorized agent shall at all times maintain sole control of the Box Office, ticket personnel and ticket sales revenue until settlement of the Presentation. Chene Park further shall determine the maximum number of tickets which may be sold for an event."

It is in a promoter's interest to sell the more expensive seats first, to ensure larger revenues. A Nojo Entertainment, Inc. representative told us that concertgoers would buy the inexpensive seats and move down to the more expensive seats once a concert started.

Recommendation

We recommend that the DRD ensure that licensees adhere to the terms of the Chene Park Riverside Entertainment Center License Agreement, and do not control seats that are to be made available for sale to the public. Furthermore, we recommend that DRD ensure that the spirit of the Development Agreement be met by continuing to make recreation opportunities available to the general public, including those with low incomes.